CANADIAN HYDROCARBONS LIMITED

1975 ANNUAL REPORT

The Board of Directors: Left to Right A. H. Crockett, J. G. Spratt, Dr. F. Morschbach, P. M. Marshall, R. A. Rich, (Chairman of the Board), E. Courtois, G. C. Solomon, G. Faul, T. Muller, M. J. Walton, Absent: M. H. Dhavernas, P. Pagezy, D. R. Williams, Jr.

Contents

COVER PHOTO - A winter sun sets over the Company's Acheson Gas Plant west of the City of Edmonton, Alberta.

Annual Report on Form 10-K

The SEC Annual Report Form 10-K for the year ended December 31, 1975 will be provided by mail upon receipt of a written request from any person who is a beneficial owner of Canadian Hydrocarbons Limited's common stock.

Such written requests should be directed to: H. R. Allsopp, Vice President and Treasurer, Canadian Hydrocarbons Limited, 700 Three Calgary Place, 355 Fourth Avenue S.W., Calgary, Alberta T2P 0J1.

Edition française de ce rapport annuel disponible sur demande

CANADIAN HYDROCARBONS LIMITED

1975 Annual Report

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL

	1975	1974
Net earnings	**$ 6,860,000**	4,881,000
Funds from operations (excluding depletion on limited term oil and gas leases)	**12,051,000**	11,212,000
Gross revenue	**301,200,000**	246,147,000
Dividends on common shares	**1,282,000**	1,282,000
Per common share:		
Net earnings	**1.22**	.83
Cash dividends		
March	**.125**	.125
September	**.125**	.125
Long term debt	**66,845,000**	67,670,000
Total assets	**214,101,000**	204,047,000
Average number of common shares outstanding	**5,129,680**	5,129,680

OPERATING

Propane and butane–gallonage	**212,799,000**	220,531,000
Gasoline and other petroleum products–gallonage	**248,464,000**	220,814,000
Natural gas–mcf	**18,723,000**	16,854,000
Electricity–kwh	**54,257,000**	49,515,000
Number of employees	**2,745**	2,540
Number of common shareholders	**2,904**	2,963

Gallonage figures are expressed in terms of Canadian gallons.

The Company, Canadian Hydrocarbons Limited, operating through subsidiaries is principally engaged in the marketing of propane, gasoline and light and residual oils; refining of petroleum products; operation of natural gas utilities; operation of an electrical utility; manufacture and supply of forest products; pipe and steel fabrication; interests in producing oil and natural gas properties; and exploration for and development of oil, natural gas and other minerals.

TO THE SHAREHOLDERS

Net earnings after tax for the year ended December 31, 1975 amounted to $6,860,000 compared with $4,881,000 in 1974. This is equivalent to $1.22 per common share compared to $ .83 per share in the prior year, an increase of 47%.

Funds from operations, excluding depletion on limited term oil and gas leases, amounted to $12,051,000 in 1975 compared with $11,212,000 in 1974. Gross revenue in the latest year rose to $301,200,000, an increase of 22% over the $246,147,000 attained in 1974. While a significant portion of this increase was a reflection of inflation, volume sales from existing operations were up substantially and operations of Rogue Valley Plywood Inc. and Thompson Pipe and Steel Company were included for a full year.

Capital expenditures for internal growth amounted to $9,360,000 in 1975 compared with $11,729,000 in the prior year. In addition to this $1,534,000 was devoted to the exploration program of Canadian Homestead Oils Limited during the year. Total assets at December 31, 1975 amounted to $214,101,000 compared with $204,047,000 a year earlier.

Total long-term debt including current maturities at December 31, 1975 amounted to $71,796,000, of which $14,247,000 was represented by bank production loans. These production loans are repayable for the most part out of net production revenues from oil and gas leases and royalties.

Dividends of $1,877,000 were paid in 1975; $1,282,000 on common shares, $595,000 on preferred shares.

PETROLEUM PRODUCTION, MARKETING AND REFINING

Revenues from Canadian marketing and refining activities during the year amounted to $140,615,000, a 24% increase over the $113,488,000 recorded in 1974. This substantial increase in Canadian sales reflects the continuing effect of inflation as well as the Company's increased activities in the petroleum market.

Total volume of all petroleum products marketed by the Canadian operations in 1975 amounted to 278,422,000 gallons, a 2.6% increase over the total volume sold in 1974. This was accomplished despite a decrease of 3.7% in LPG sales resulting primarily from government controls on export sales.

The anticipated decline in LPG sales in the Alberta market due to the Provincial Government's rural gasification program was not as severe in 1975 as had been expected. Increased sales activities in all areas added gallonage that served to offset the erosion that did materialize. Further volume losses of LPG to natural gas can be expected in Alberta in 1976 as the government program continues.

Gasoline and refined products sales increased by 18.6% to 91,274,000 gallons due primarily to increased sales activities in Ontario and Quebec. Considerable growth was experienced in the Ontario market with the opening of two new combination LPG and gasoline distribution facilities at Stratford and Peterborough. In addition, a petroleum division has been established in the Southern Ontario marketing area and is now serving over 30 dealer accounts. The "Canadian" brand name has been well accepted in these areas and a continued expansion program and additional volumes are planned for this area.

During 1975 the Company's transport fleet was upgraded and expanded. This program which has resulted in increased efficiencies and additional revenues, will be extended in 1976.

The continuing increase in the cost of crude oil and refined products together with interim price controls and freezes implemented by Provincial governments cut into profit margins during the year. The Federal Anti-Inflation program and the delay in passing through increased costs that will inevitably be incurred will make 1976 an extremely difficult year. To overcome this situation the

Company has instituted a stringent cost control program throughout the entire Canadian marketing organization and the results of the program to date are most encouraging.

In the United States gross revenues from the Company's petroleum marketing and refining operations totalled $76,388,000, an 18% increase over the $64,964,000 recorded in 1974. Here, as in the Canadian operations, the increase reflects additional sales volume as well as the effects of inflation.

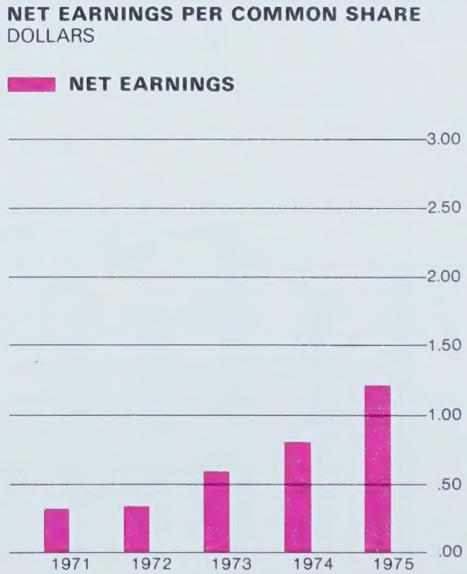
The total volume of LPG, gasoline and other refined petroleum products sold in the United States in 1975 amounted to a record 182,841,000 gallons, a 7.6% increase over the prior year. Gasoline and other refined product sales increased 9% to 157,191,000 gallons as a result of planned inventory reductions and the sale of additional purchased products.

Costs of crude oil and other petroleum products continued to increase during the year which resulted in reduced profit margins expressed as a percentage of sales. However, to the extent permitted by the marketplace and by the various regulatory bodies concerned, these increases were passed through in the form of increased selling prices, thus minimizing the reduction in gross margins expressed in cents per gallon. Management control emphasis during the year centred on improving operating efficiency and costs, and on the control of credit sales. These efforts were successful in counteracting the serious operating cost increases that resulted from continuing inflation.

The Company's three refineries in the United States processed a total 3,895,000 barrels of crude oil in 1975, a decrease of 13% from the 1974 level. This reduction in throughput resulted primarily from a shortage of crude oil supply. Dependable crude oil supply continues to be a critical factor and commands the closest attention of management on a day-to-day basis. Sales of refined products in the U.S. are expected to continue to increase with additional refined products being purchased as needed to serve the Company's traditional marketing areas.

Despite the fact that Federal price controls, allocation programs and decreasing crude oil supply continued to complicate operations, our United States marketing facilities operated at levels exceeding those of the prior year. The retailing program emphasized the upgrading of existing outlets rather than expansion of the number of outlets. Included in this program is a conversion of some older stations employing a multitude of trade names

Commercial installations such as this crop drying operation contribute greatly to the Company's sales of propane in the Province of Quebec.



LEGEND SHADED — GENERAL AREA OF PETROLEUM AND UTILITY OPERATIONS

● — REFINERIES AND PROCESSING PLANTS

MAJOR FACILITIES AND DISTRIBUTION LOCATIONS

FRANCHISES	
Gas	**114**
Electrical	**1**
PROPANE AND PETROLEUM PRODUCT OUTLETS	
Retail Outlets	**201**
Consignee Operator Outlets	**166**
Storage Points	**12**
PROCESSING PLANTS AND REFINERIES	**10**
FOREST PRODUCTS OUTLETS	**5**
RAILWAY TANK CARS	**201**
HIGHWAY TRANSPORTS	
Propane — Tractors	**24**
— Trailers	**72**
Petroleum Products	**14**

DELIVERY TRUCKS	
Propane	**310**
Petroleum Products	**34**
SERVICE VEHICLES	**613**
EMPLOYEES	**2,745**
CUSTOMERS	
Propane & Utilities	**253,543**
MILES OF PIPELINE	
Transmission & Distribution	**5,308**
PROPANE STORAGE FACILITIES	
Above Ground	**49,000,000**
Under Ground	**19,000,000**

to our "Vista" brand which has gained good acceptance throughout the U.S. Northwest.

UTILITIES

Sales of the gas and electric utility operations for the year amounted to $15,846,000 compared to $11,275,000 for 1974, an increase of 41%. This improvement in sales reflects the increase in the number of customers served because of extensions, expansions and additions to the Company's distribution systems, particularly in the rural areas of Alberta and in the City of Yellowknife. Increases in consumer rates resulting from the approval of new rates by the regulatory bodies in the various areas of the Company's operations are also reflected in revenues. These higher consumer rates became effective at different dates throughout the year and for the most part provide for recovery of the increase in the unit price of purchased gas and purchased electricity.

The volume of gas sold during 1975 amounted to 16.4 billion cubic feet up 8% from the prior year. Sales of electricity in the City of Yellowknife increased 10% to 54,257,000 kilowatt-hours reflecting the attachment of larger customers.

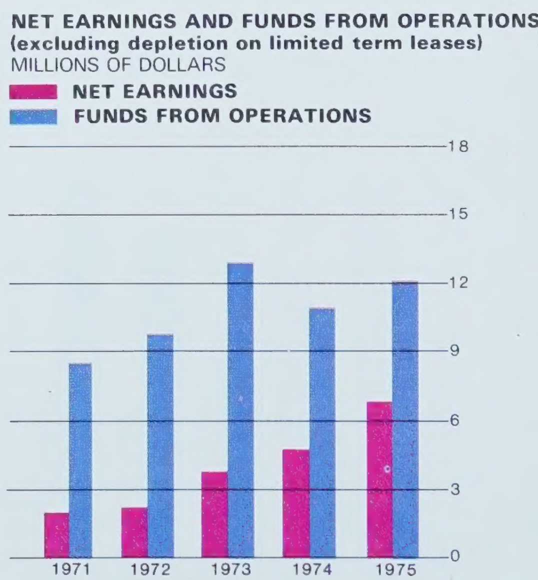
Capital expenditures for the utility operations during the year amounted to $6,837,000, The 1975 construction program was the largest one to date for the Company; 1,200 miles of transmission and distribution pipe were installed and at year-end the Company served 39,322 gas utility customers through 5,300 miles of pipe in 89 urban communities and 25 rural areas. The number of electricity customers in the City of Yellowknife increased by 2.4% to 2,610.

EXPLORATION AND DEVELOPMENT

At December 31, 1975 the Company had expended $10,500,000 under the exploration agreement with Canadian Homestead Oils Limited. As a result of these expenditures the Company now holds 1,820,358 shares of Homestead. This holding together with the 629,900 shares owned by Castle Oil and Gas Limited, which is itself 84% owned by CHL gives the Company control of 41% of Canadian Homestead's outstanding common shares.

Under the agreement the Company will provide an additional $7,700,000 over the next several years and will in return receive an additional 1,150,000 common shares. Upon the completion of the entire transaction the Company

Propane provides a reliable year-round power source to a remote Federal Government tele-communications relay system in the far north.



will control about 49% of the then outstanding common shares of Homestead.

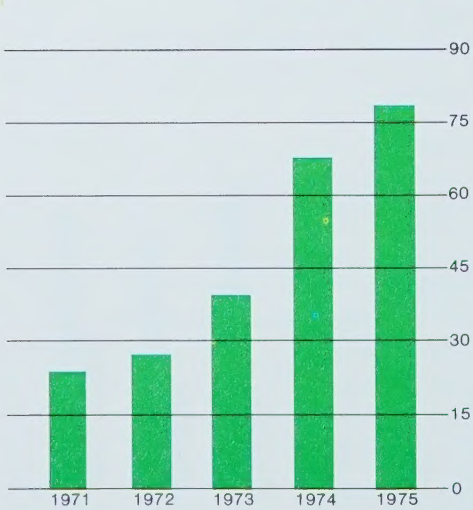
Homestead has continued an aggressive exploration program in the Province of Alberta, concentrating its activity in the central plains area where a number of successful tests have been drilled.The prolific Rosevear area of Alberta continues to be the focal point for Homestead's drilling activity with natural gas reserves being enhanced by two successful wells during the period. Drilling will continue in this region for purposes of field delineation and evaluation and construction of a gas processing plant is projected to commence in late 1976. Production from this source is expected in mid 1978 and will significantly enhance Homestead's financial results.

In the State of Texas Homestead's subsidiary, Canadian Admiral Oils Co. participated in the drilling of 14 wells, six of which were oil producers located in the north Tarzan prospect in Martin county, where a new pool oil discovery was made in May, 1975. Canadian Admiral's interest is 7.8%. As development of this prospect continues, its importance as a source of revenue for Homestead is rapidly increasing.

In the Arctic Islands, despite some decline in the tempo of drilling, activity, important discoveries and extensions are still being made. Homestead, because of its extensive land holdings in this frontier region and because of its investment in Panarctic Oils Ltd. continues to benefit from them. The Hecla gas discovery on the Sabine Peninsula of Melville Island has recently been the scene of two successful tests, both of which bode well for Homestead's holdings in the area. The Hecla C-32 well which was drilled one and a half miles north of permit 1832 (Homestead's interest - 37-½%) as a 4,400 foot test of the Borden Island sand formation has extended the eastern limits of the Hecla field by four miles, and significantly increased the reserves attributable to Homestead's acreage. Eight miles offshore the Hecla P-69 test drilled from an ice platform in 450 feet of water, has reportedly encountered a new gas pool in the deeper Biorne sand. It is the first discovery in the Arctic Islands from this formation and indicates that the Hecla field could be productive from at least two geological zones. Another offshore probe N.W. Hecla W-25 is soon to commence drilling 15 miles out to sea in 1.000 feet of water. This test is intended to extend the Hecla field further to the west.

On the eastern side of the Sabine Peninsula two additional gas wells

PROPANE REVENUE
MILLIONS OF DOLLARS



Efficiency, economy and smartness are featured in the Company's new Vista service stations that have greatly increased the volume of sales in the Pacific Northwest.

have been drilled in the past year that have served to further extend the limits of the Drake Point gas field. Of particular interest to Homestead was Panarctic et al E Drake I-55 which was drilled from an ice island approximately four miles east of the Company's Drake Point holdings. The success of that well has added substantially to Homestead's share of the reserves in the Drake Point field.

In addition to its interest in exploration through its significant investment in Canadian Homestead, the Company has been involved in a modest exploration program in North Dakota and Montana through a wholly-owned subsidiary, Consolidated Crude Oil Company. The primary purpose of this program was to control reserves that would help to support the Company's three refineries in those States. To date three discoveries have been made and although the Company's interest is only about 25%, it does have a call on the total crude oil output of about 400 barrels per day. The initial success of this program will mean that the ongoing exploration in this area will be virtually self-financing.

URANIUM

During the year the Company disposed of its interest in two small uranium mines in Colorado and the acreage in Utah. These mines were not profitable and the acreage was not considered to be prospective.

The uranium exploration joint venture in Wyoming in which the Company has a 17.85% interest is progressing and additional preliminary research and development work on in situ solution mining techniques will be done in 1976. The operator of the joint venture estimates the Company's share of the thus far discovered potential in-place reserves amount to about one million pounds of U_3O_8.

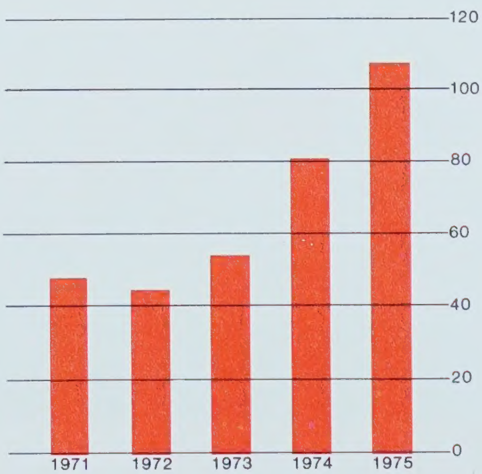
FOREST PRODUCTS

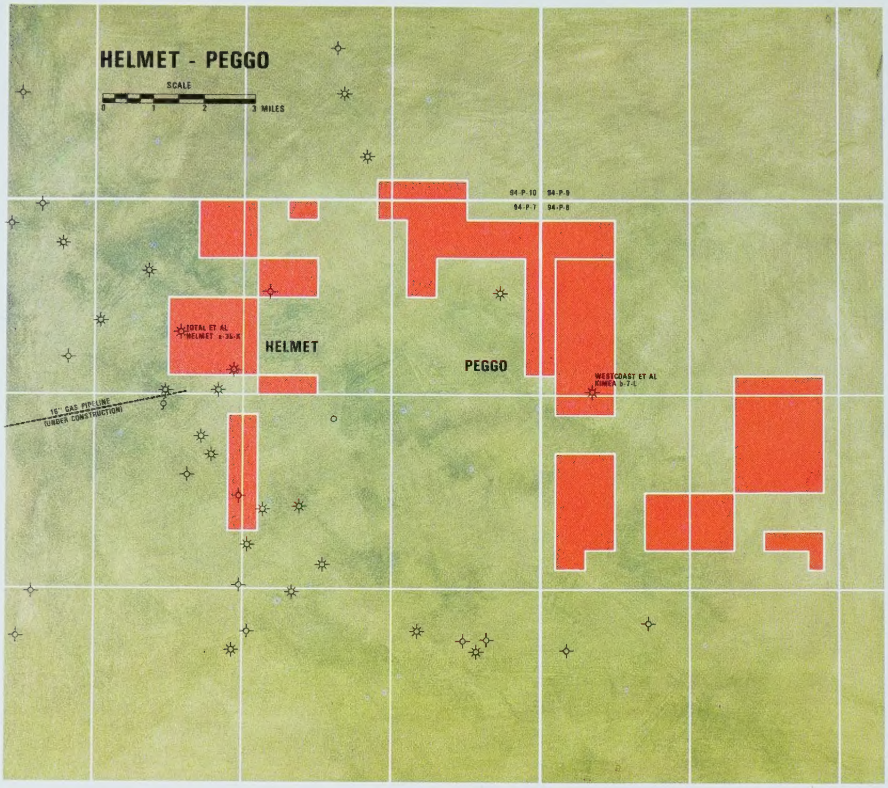
In January 1975, the construction of the Rogue Valley veneer mill and wood chip plant at Medford, Oregon was completed. The coming into production of these facilities resulted in further integration of the plywood manufacturing facilities. The output of veneer exceeded expectations both as to quality and quantity.

The year 1975 continued to be a difficult one for the lumber and plywood industry in the United States. The return of available mortgage funds and the decrease in prime interest rates did not result in the expected increase in housing starts. Inflationary building costs and the lack of significant political action or incentives

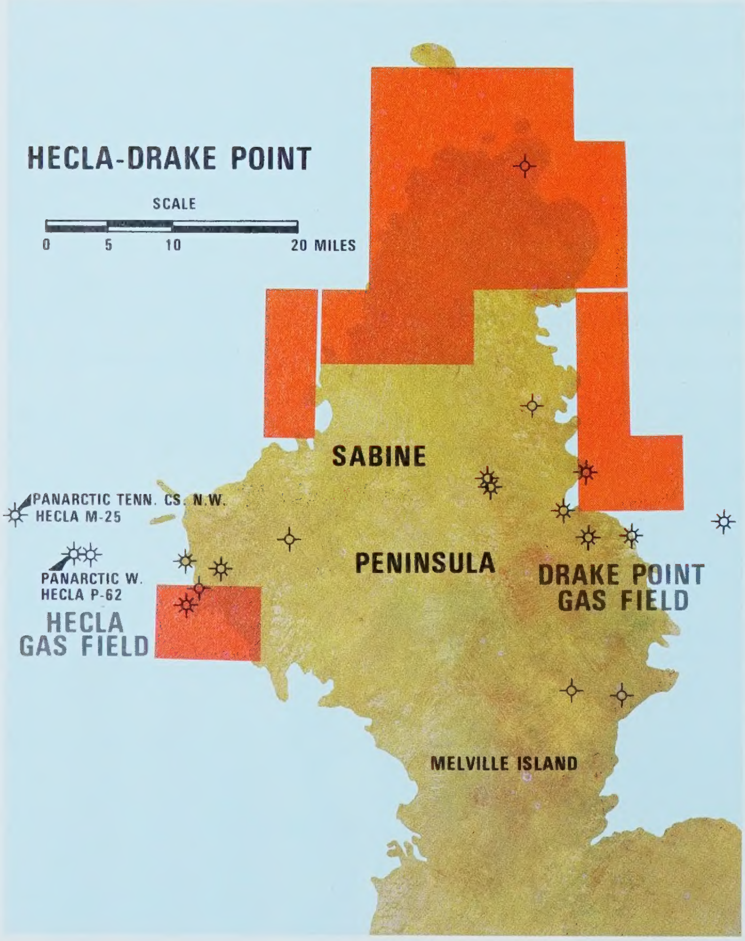

The Company's Utilities Division laid 1,200 miles of transmission and distribution pipe during 1975.

GASOLINE, FUEL OILS AND OTHER REFINED PRODUCTS REVENUE
MILLIONS OF DOLLARS

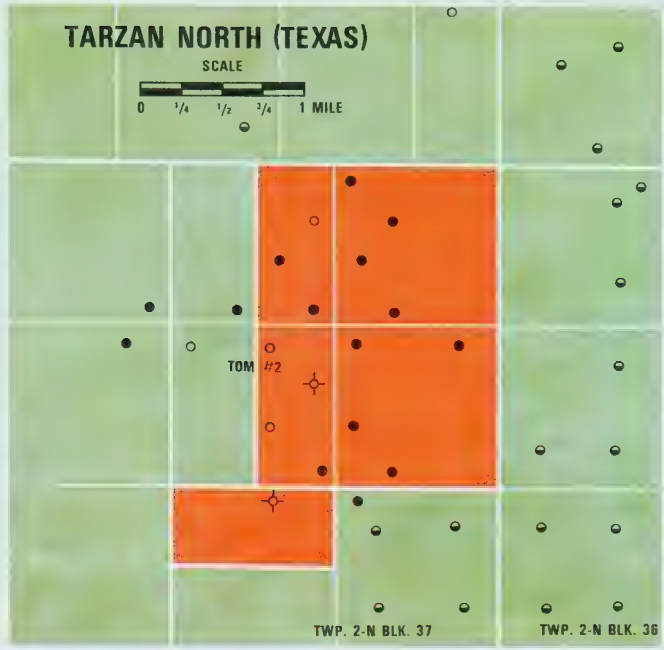



HELMET - PEGGO
SCALE
0 1 2 3 MILES
94-P-10 94-P-9
94-P-7 94-P-8
TOTAL ET AL
HELMET a-36-K
HELMET
PEGGO
WESTCOAST ET AL
KIMEA b-7-L
16" GAS PIPELINE
(UNDER CONSTRUCTION)


HELMET
PEGGO
FT. NELSON
BRITISH
COLUMBIA
ALBERTA
FT. ST. JOHN
ROSEVEAR
EDMONTON
RED DEER
CALGARY


HECLA-DRAKE POINT
SCALE
0 5 10 20 MILES
SABINE
PANARCTIC TENN. CS. N.W.
HECLA M-25
PANARCTIC W.
HECLA P-62
HECLA
GAS FIELD
PENINSULA
DRAKE POINT
GAS FIELD
MELVILLE ISLAND


SABINE DETAIL MAP
MELVILLE
ISLAND



LEGEND

HOMESTEAD INTERESTS

LOCATION OR DRILLING WELL

GAS WELL

DEVONIAN OIL

PERMIAN OIL

ABANDONED WELL

SALT WATER DISPOSAL WELL

appears to have dampened the purchasing mood of the average potential house buyer, at least for the 1975 construction year. An unexpected collapse of the world paper board markets resulted in substantial curtailments of wood chip production and even of total suspension of production in certain sectors of the industry. This general cut-back in wood chip production resulted in significant selling price decreases. Although selling prices and gross margins remained at depressed levels throughout 1975, the Company was able to increase sales through increased marketing efforts.

PIPE AND STEEL DIVISION

1975 was a record-setting year for Thompson Pipe and Steel Company in Denver, Colorado. Sales for the year amounted to $17,743,000, a 27% increase over the $13,917,000 recorded in 1974.

During the year Thompson completed substantially all of the second facilities expansion program at its principal manufacturing location. This consisted of enclosing a major area for additional pipe fabrication and the provision of additional production equipment. This resulted in greatly increased efficiency, substantially expanded capacity, and far less vulnerability to delay caused by inclement weather.

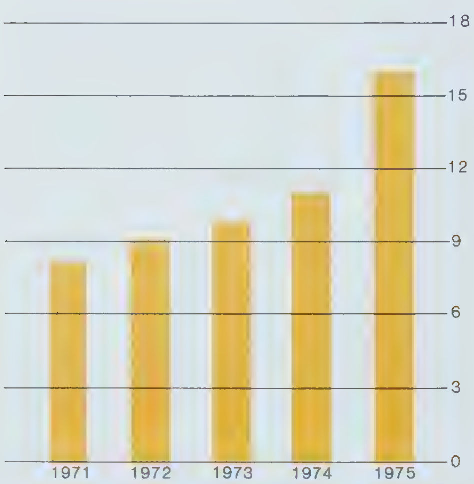
During the second half of the year Thompson installed an improved factory scheduling and labour measurement and control system. The purpose of this program was to further improve productivity of the Company's labour-intensive operations. Although 1975 income was not materially affected by the results of this effort, 1976 operations are already realizing substantial positive financial benefits from the program.

Prior to the end of 1975 Thompson embarked on another expansion that will result in a significant increase in its production capacity. The installation of a spiral pipe mill during the summer of 1976 will for the first time put the Company in automated manufacture of large diameter steel pipe. In addition to the increased capacity this project will result in lower raw material costs, more efficient use of labour and the release of existing production areas for the manufacture of higher margin items. It is expected that these new facilities will be on stream about September of this year.

OUTLOOK

The first quarter of 1976 has been unseasonably warm in all of the Company's petroleum distribution areas, with the exception of the Province of Quebec. Historically this would have resulted in weak financial

UTILITIES REVENUE
MILLIONS OF DOLLARS



The veneer mill in Medford, Oregon completed by the Company in early 1975 is capable of producing about 2/3 of the veneer consumed by the Company's lay-up plant, also at Medford, Oregon.

results as the first and fourth quarters of the calendar year usually contribute the great majority of the Company's annual earnings. However, indications are that the Company's diversification program of the past few years is being effective as overall corporate earnings seem to be off to a good start in the first two months of 1976.

The outlook for growth in petroleum products marketing in Canada is not particularly exciting. The rural gasification program in Alberta will result in a downturn in LPG sales in that Province that will probably about offset the increase in sales in the other provinces. On the positive side, however, we can expect to pick up considerable additional volume in the public utility sales in Alberta, and the cost reduction program instituted in the Canadian refined products marketing operation can be expected to improve profit margins on the stable sales volume.

In the United States, although the supply of crude oil to the Company's refineries is a continuing source of concern, everything possible is being done to ensure that the effect of the cut-back in Canadian crude oil exports to the United States is kept to a minimum. Increased production of Naval Petroleum Reserve #1 in California with 25% of the production earmarked for small refineries is an encouraging factor.

The forest products division has commenced 1976 in a stronger financial position than had been expected. While the demand for lumber and plywood is still very weak, prices have strengthened to a considerable degree. This division, which constituted a drain on earnings during 1975 has started 1976 making a positive contribution, however modest. This hoped for turn around appears to be occurring earlier than expected.

Thompson Pipe and Steel Company faces a year of substantial change, and hopefully a year of further increases in profitability. The cost reduction program implemented in 1975 and the installation of the spiral pipe mill should make this division thoroughly competitive in the more difficult marketing environment that faces it.

Canadian Homestead Oils Limited has already entered on a most exciting period of its development. The bringing into production of fields that have been discovered in the past two or three years will provide large increases in earnings and in cash flow. Homestead made its first positive contribution to Canadian Hydrocarbons' earnings in 1975 and we expect this contribution will continue and increase in 1976 and future years.

Although it is impossible in these times of severe government regulation to predict even the short-term future with any great accuracy, the Company does enter 1976 in a strong financial position and with excellent prospects for continued growth and improved profitability.

RAYMOND A. RICH
Chairman of the Board

PAUL M. MARSHALL
President

April 21, 1976

A newly installed piece of production equipment receives final tune-up in a portion of the recently enclosed premises at the Thompson Pipe and Steel, North Washington Street plant.

CONSOLIDATED STATEMENT OF EARNINGS Years ended December 31, 1975 and 1974

(thousands of dollars except per share figures)

	1975	1974
Revenue	**$301,200**	$246,147
Expenses		
Cost of sales	**226,082**	176,916
Operating, selling and administrative expenses	**42,906**	37,133
Interest and expense on long term debt	**5,728**	5,397
Other interest expense	**1,920**	2,024
Depreciation and depletion	**11,057**	12,561
Minority interest in earnings of subsidiaries	**294**	329
	287,987	234,360
Earnings before income taxes	**13,213**	11,787
Income taxes (Notes 1 and 2)	**7,014**	6,868
Earnings before equity in net earnings of affiliate	**6,199**	4,919
Equity in net earnings of affiliate	**661**	(38)
Net earnings for the year	**$ 6,860**	$ 4,881
Net earnings per common share	**$ 1.22**	$ .83

(Based on average number of shares outstanding)

See accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 1975 and 1974
(thousands of dollars)

	1975	1974
Funds Provided		
Funds from operations	**$16,203**	$16,521
Disposals of fixed and other assets	**1,930**	1,587
Additional long term debt	**13,710**	7,758
	31,843	25,866
Funds Applied		
Net investment in subsidiaries		3,250
Additions to fixed assets	**9,360**	11,729
Dividends on preferred and common shares	**1,877**	1,887
Reduction of long term debt	**14,546**	11,294
Investment in Canadian Homestead Oils Limited	**1,534**	1,739
Redemption of first and second preferred shares	**163**	167
Other	**399**	339
	27,879	30,405
Increase (decrease) in working capital	**$ 3,964**	$(4,539)
Changes in working capital represented by		
Increase (decrease) in current assets		
Cash	**$ 3,729**	$ (692)
Short term deposits	**(3,231)**	24
Accounts and notes receivable	**10,022**	7,707
Inventories	**(3,492)**	14,818
Prepaid expenses	**(85)**	157
	6,943	22,014
Increase (decrease) in current liabilities		
Bank loans	**1,352**	12,313
Accounts payable and accrued charges	**2,871**	9,384
Income taxes payable	**(2,468)**	3,415
Current maturities of long term debt	**1,211**	1,144
Deferred income	**13**	297
	2,979	26,553
Increase (decrease) in working capital	**$ 3,964**	$(4,539)

See accompanying notes.

CANADIAN HYDROCARBONS LIMITED and subsidiaries

CONSOLIDATED BALANCE SHEET December 31, 1975 and 1974

(thousands of dollars)

ASSETS

	1975	1974
Current		
Cash	$ 5,876	$ 2,147
Short term deposits	9,667	12,898
Accounts and notes receivable	43,931	33,909
Inventories (Notes 1 and 2)	23,659	27,151
Prepaid expenses	808	893
	83,941	76,998
Investments (Note 1)		
Shares of Canadian Homestead Oils Limited (Note 3)	14,308	12,264
Other	1,480	1,499
	15,788	13,763
Fixed (Notes 1 and 4)	157,010	150,228
Less accumulated depreciation and depletion	49,171	43,726
	107,839	106,502
Other		
Notes receivable from officer	354	354
Debt financing and other deferred charges less amounts written off	1,047	1,198
Cost of shares of subsidiaries over carrying value at dates of purchase (Note 1)	5,132	5,232
	6,533	6,784
	$214,101	$204,047

On behalf of the Board:

RAYMOND A. RICH, Director

PAUL M. MARSHALL, Director

See accompanying notes.

LIABILITIES

	1975	1974
Current		
Bank loans ($14,593,000 secured)	$ 21,618	$ 20,266
Accounts payable and accrued charges	32,858	29,987
Income taxes payable	3,301	5,769
Current maturities of long term debt (Note 5)	4,951	3,740
Deferred income	1,320	1,307
	64,048	61,069
Long term debt (Note 5)	66,845	67,670
Deposits	505	524
Deferred income taxes (Notes 1 and 2)	9,657	11,058
Minority interest in subsidiaries (Note 6)	5,225	5,166

SHAREHOLDERS' EQUITY

	1975	1974
Capital (Note 7)		
Authorized		
250,000 5½% cumulative redeemable first preferred shares, par value $20		
4,000,000 6% cumulative redeemable second preferred shares, par value $25		
14,000,000 common shares, no par value		
Outstanding		
211,455 first preferred shares, (1974 - 214,755)	4,229	4,295
236,600 second preferred shares, (1974 - 240,500)	5,915	6,012
5,129,680 common shares	24,236	24,236
	34,380	34,543
Contributions in aid of construction (Note 1)	9,307	4,866
Retained earnings	24,134	19,151
	67,821	58,560
Commitments and contingencies (Notes 3 and 9)		
	$214,101	$204,047

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Years ended December 31, 1975 and 1974
(thousands of dollars)

	1975	1974
Balance at beginning of year		
As previously stated	**$19,723**	$25,156
Deduct		
Deferred income tax adjustments and draw-downs (Notes 1 and 2)	**572**	8,999
As restated	**19,151**	16,157
Add net earnings for the year	**6,860**	4,881
	26,011	21,038
Deduct dividends		
Preferred shares	**595**	605
Common shares	**1,282**	1,282
	1,877	1,887
Balance at end of year	**$24,134**	$19,151

See accompanying notes.

AUDITORS' REPORT

To the Shareholders of
Canadian Hydrocarbons Limited.

We have examined the consolidated balance sheets of Canadian Hydrocarbons Limited and subsidiaries as at December 31, 1975 and 1974 and the consolidated statements of earnings, retained earnings, and changes in financial position for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1975 and 1974 and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles applied on a basis consistent during the years.

Calgary, Canada.
February 27, 1976.

Clarkson, Gordon & Co.
Chartered Accountants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 1975 and 1974

1. Summary of principal accounting policies

Consolidation

The consolidated financial statements include the accounts of Canadian Hydrocarbons Limited and its subsidiary companies and reflect earnings of subsidiaries since acquisition. United States dollar amounts have been translated to Canadian dollars on the basis that $1.00 U.S. equals $1.00 Canadian.

Business combinations

Companies acquired have been accounted for as purchases. Purchase prices have been allocated to assets based on appraisals and any remaining difference is recorded as "cost of shares of subsidiaries over carrying value at dates of purchase". During 1974 the Company concluded the acquisition of Rogue Valley Plywood, Inc. and Thompson Pipe and Steel Company.

Inventories

Inventories are priced at the lower of cost (first-in, first-out) or replacement cost except for certain United States subsidiaries which price petroleum products on the last-in, first-out method. Net earnings for the year were increased by approximately $500,000 as a result of a liquidation of LIFO inventory quantities.

Investments

The Company accounts for its investment in Canadian Homestead Oils Limited by the equity method. Investments in other companies are recorded at lower of cost or market with income recorded only as dividends are received.

Fixed assets, depreciation and depletion

Fixed assets are recorded at cost, which policy includes the full cost method of accounting for oil and gas properties. Depreciation is provided on a straight line basis at rates varying from 2% to 25% which are designed to amortize the cost of the assets over their estimated useful lives. Amortization of contributions in aid of construction is provided in amounts that correspond with depreciation of the related assets.

Oil and gas properties and royalty interests are depleted on a unit of production method based on estimated remaining reserves. Limited term interests in oil and gas leases are depleted over their remaining terms of up to two years.

Income taxes

The companies, with the exception of public utility subsidiaries, have, since 1969, accounted for income taxes by the tax allocation method whereby the income tax provision is based on the earnings reported in the accounts. Unrecorded deferred income taxes at 1969 are charged to retained earnings as draw-downs occur.

Public utility subsidiaries record only income taxes payable in accordance with regulatory requirements. At December 31, 1975 unrecorded income tax reductions with respect to such subsidiaries in the current and prior years amount to approximately $1,695,000.

2. Changes in accounting policies in 1974

Tax allocation accounting

In 1974 the Company adopted, retroactive to 1969, the practice of tax allocation. 1974 earnings were increased by approximately $1,860,000 as a result of this change.

Inventory pricing

In 1974 the Company adopted in certain United States subsidiaries the last-in, first-out method of inventory pricing of certain basic petroleum products. Prior to 1974 such inventories had been valued on the first-in, first-out method. This change reduced closing 1974 inventories by $2,587,000 and 1974 net earnings by $1,284,000.

3. Investment in Canadian Homestead Oils Limited

At December 31, 1975 the companies held a total of 2,450,258 shares of Canadian Homestead Oils Limited representing 41% of the outstanding common shares of Homestead. At that date the quoted market value was $12,558,000 (market value February 27, 1976 - $14,089,000).

Additional shares will be acquired under terms of an agreement commencing January 1, 1975 between Canadian Propane Gas & Oil Ltd. (a wholly owned subsidiary) and Homestead, whereby Canadian Propane is committed to an expenditure of $9,212,000 and will receive as consideration one share of Homestead for each $6.67 so expended. Canadian Propane is required to expend annually a minimum of $1,500,000, but not more than $3,070,000 until the full commitment of $9,212,000 has been met. In 1975 expenditures amounted to $1,534,000 and at December 31, 1975, $7,678,000 is remaining under the commitment.

At December 31, 1975 options granted by Canadian Propane were outstanding to officers and employees of Homestead to purchase 97,895 common shares of Homestead at prices ranging from $5.50 to $8.00 per share, exercisable on various dates to December, 1976.

4. Fixed assets

	In Thousands	
	1975	**1974**
Customers' installations	**$ 31,611**	$ 31,649
Transmission lines and distribution systems	**35,881**	29,628
Buildings and equipment	**35,703**	32,391
Refineries and gas plants	**11,073**	10,823
Automotive equipment	**11,181**	10,403
Oil, gas and mining properties and equipment	**9,470**	9,827
Oil and gas royalties	**7,099**	7,099
Limited term oil and gas leases	**10,009**	13,613
Land	**4,983**	4,795
	157,010	150,228
Deduct		
Accumulated depreciation	**37,011**	32,178
Accumulated depletion	**12,160**	11,548
	49,171	43,726
	$107,839	$106,502

5. Long term debt

	In Thousands	
	1975	**1974**
Parent		
Convertible interest free promissory note due 1976	**$ 350** U.S.	$ 350 U.S.
7% Promissory Note due 1981	**2,047**	2,388
9% Promissory Note due 1983	**3,800**	4,275
Subsidiaries		
8% to 10% Bank Loans due on various dates to 1979	**4,784** U.S.	7,415 U.S.
5% to 7% Promissory Notes due 1978 and 1980	**4,399** U.S.	5,533 U.S.

	In Thousands			
	1975		1974	
6% to 6½% Sinking Fund Debentures due on various dates from 1981 to 1985	**$ 9,379**		$ 9,988	
6½% Sinking Fund Debentures due 1987	**2,742**	U.S.	2,852	U.S.
7¼% Promissory Note due 1989	**3,760**	U.S.	3,840	U.S.
5% Subordinated Debentures due 1989	**4,321**	U.S.	4,490	U.S.
10¾% Promissory Note due 1995	**3,000**			
5% Subordinated Notes due 1976 to 1990	**4,702**	U.S.	4,702	U.S.
9⅝% Sinking Fund Debentures due 1977 to 1991	**7,000**	U.S.	7,000	U.S.
8⅝% Promissory Notes due 1993	**4,455**		4,500	
9.8% to 10.25% Bank Production Loans (secured by oil and gas properties) due on various dates to 1980	**14,247**		10,531	
Notes and mortgages, due on various dates	**2,810**		3,546	
	71,796		71,410	
Deduct current maturities included in current liabilities	**4,951**		3,740	
	$66,845		$67,670	

Current maturities included in current liabilities do not include estimated repayments of bank production loans in 1976. Long term debt repayments, including estimated bank production loan repayments, in each of the five years subsequent to December 31, 1975 are as follows:

	In Thousands		
	Bank Production Loans	Other	Total
1976	$3,268	$4,951	$8,219
1977	170	5,489	5,659
1978	206	8,273	8,479
1979	228	5,366	5,594
1980	259	4,287	4,546

Financing expenses are being amortized over the terms of the issues.

6. Minority interest in subsidiaries

	In Thousands	
	1975	1974
Preferred shares of Great Northern Gas Utilities Ltd.	**$2,337**	$2,425
Other companies	**2,888**	2,741
	$5,225	$5,166

7. Capital

Under provisions relating to the outstanding preferred shares, the Company is required to purchase annually for redemption $70,000 par value first preferred shares and $97,500 par value second preferred shares, if available on the open market, at prices not exceeding their par value. In addition, the first and second preferred shares are redeemable by the Company at any time at prices not exceeding $21.10 and $26.50 per share respectively.

To December 31, 1975 the Company has redeemed 38,545 first preferred shares of an aggregate par value of $770,900 (3,300 shares in 1975; 3,500 shares in 1974) and 23,400 second preferred shares of an aggregate par value of $585,000 (3,900 shares in 1975; 3,900 shares in 1974). Accordingly, under provisions of the Canada Corporations Act, consolidated retained earnings includes $1,355,900 designated as "capital surplus".

Under stock option plans adopted in prior years, the Company may grant options to officers and employees to purchase common shares. Generally, options are exercisable cumulatively at the rate of 25% annually beginning one year from date of granting and expiring five years from such date.

	Qualified Stock Option Plan		Non-Qualified Stock Option Plan	
	Price per Share	Shares Optioned	Price per Share	Shares Optioned
1974				
Options outstanding at January 1	$7.875-$12.00	71,125	$10.625-$12.50	25,000
Options granted	7.50	20,000		
Non-qualified stock options converted to qualified stock options	8.00	18,000	10.625- 12.50	(18,000)
Options cancelled	8.00 - 9.00	(4,000)	12.50	(4,000)
Options outstanding December 31	7.50 - 10.00	105,125	10.625	3,000
1975				
Options cancelled	7.50 - 9.00	(18,800)	10.625	(1,000)
Options outstanding December 31	$7.50 -$10.00	86,325	$10.625	2,000

At December 31, 1975, 134,375 common shares were reserved for the granting of options in the future under the Plan.

The convertible interest free promissory note of the Company in the amount of $350,000 U.S. is convertible at any time to December 31, 1976 at the rate of $12.00 per share (see Note 5).

8. Additional statutory information

During the year the Company had fourteen directors and seven officers (1974 - eighteen directors and seven officers) who received the following remuneration:

	As Directors (In Thousands)		As Officers (In Thousands)	
	1975	1974	1975	1974
From the Company	**$ 43**	$ 36	**$331**	$323
From Subsidiaries	**6**	9	**90**	84
	$ 49	$ 45	**$421**	$407

Two officers, who were also directors, received no remuneration in their capacity as directors of the Company.

9. Commitments and contingencies

In addition to the commitments outlined in Note 3, the companies have entered into long term contracts to lease certain assets at annual rentals of approximately $1,550,000, expiring for the most part over a term of twenty years from December 31, 1975.

Under pension plans covering United States employees, the unfunded actuarial liability for past service costs amounted to approximately $610,000 at December 31, 1975, which costs are being charged to earnings over a period of thirty years.

10. Anti-Inflation program

The federal government passed legislation effective October 14, 1975 subjecting the Company and its Canadian subsidiaries to mandatory compliance with controls on prices, profit margins, employee compensation and shareholder dividends. The effects of controls on prices, profit margins and employee compensation are not yet clear as a result of interpretation uncertainties and the need to develop appropriate data from the companies' records.

FIVE YEAR COMPARATIVE STATISTICS

(thousands of dollars except equity per share and shares outstanding)

	1975	1974	1973	1972	1971
Working capital	**$ 19,893**	$ 15,929	$ 20,470	$ 18,203	$ 20,493
Funds from operations (excluding depletion on limited term leases)	**12,051**	11,212	12,890	9,466	8,675
Purchase of fixed assets (net)	**7,430**	10,142	18,508	14,013	18,998
Fixed assets including cost of shares of subsidiaries over net book value	**112,971**	111,734	108,643	94,439	89,241
Long term debt	**66,845**	67,670	71,184	60,565	59,239
Preferred shares	**10,144**	10,307	10,475	10,643	10,810
Common shareholders' equity	**57,677**	48,253	43,318	39,865	39,011
Common shareholders' equity per share	**11.24**	9.41	8.44	8.01	7.86
Number of common shares outstanding at year-end (thousands)	**5,130**	5,130	5,130	4,974	4,964

EARNINGS PER SHARE AND COMMON STOCK PRICE RANGE

	Earnings Per Share		Common Stock Price Range (in dollars)			
	1975	1974	1975		1974	
Quarter			High	Low	High	Low
First	**$ .46**	$ .33	**5¼**	**3¼**	8⅞	7⅛
Second	**.09**	.03	**6¾**	**5¼**	7¾	6
Third	**.14**	.12	**7¾**	**5½**	6⅜	3⅞
Fourth	**.53**	.35	**6⅛**	**5⅛**	4⅞	3⅝
Year ended	**$1.22**	$ .83				

CANADIAN HYDROCARBONS LIMITED and subsidiaries

FIVE YEAR SUMMARY OF OPERATIONS

SUMMARY OF CONSOLIDATED STATEMENTS OF EARNINGS for the years ended December 31

(in thousands of dollars, except where amounts are given on a per share basis)

	1975	1974	1973	1972	1971
REVENUE	**$301,200**	$246,147	$138,342	$106,656	$101,270
EXPENSES					
Cost of sales	**226,082**	176,916	82,281	63,088	64,315
Operating, selling and administrative expenses	**44,826**	39,157	27,113	23,084	20,022
Interest and expense on long term debt	**5,728**	5,397	4,344	3,536	2,819
Depreciation and depletion	**11,057**	12,561	15,382	11,335	8,642
Minority interest in earnings of subsidiaries	**294**	329	272	251	225
	287,987	234,360	129,392	101,294	96,023
EARNINGS					
Earnings before income taxes	**13,213**	11,787	8,950	5,362	5,247
Income taxes	**7,014**	6,868	4,981	2,784	2,828
Earnings before equity in net earnings of affiliate	**6,199**	4,919	3,969	2,578	2,419
Equity in net earnings of affiliate	**661**	(38)	(328)	(294)	(280)
Net earnings	**6,860**	4,881	3,641	2,284	2,139
Dividends on preferred shares	**595**	605	614	624	634
Net earnings applicable to common shares	**$ 6,265**	$ 4,276	$ 3,027	$ 1,660	$ 1,505
PER SHARE INFORMATION					
Earnings per common share	**$ 1.22**	$ .83	$ .60	$ .33	$ .30
Dividends per common share	**.25**	.25	.25	.25	.25

REVENUE BY LINES OF BUSINESS

	1975	1974	1973	1972	1971
Gasoline and other petroleum products	**$107,362**	$ 81,044	$ 55,515	$ 44,593	$ 47,634
Propane	**78,019**	68,424	39,463	27,269	24,423
Natural gas and electricity	**15,846**	11,275	10,260	9,097	8,144
Merchandise and other sales	**28,901**	27,402	21,156	17,247	14,002
Forest product sales	**44,828**	34,791	—	—	—
Steel product sales	**17,743**	13,917	—	—	—
Income from limited term oil and gas leases	**4,428**	5,897	9,975	6,522	4,737
Interest and other income	**4,073**	3,397	1,973	1,928	2,330
	$301,200	$246,147	$138,342	$106,656	$101,270

Note:

The information gives retroactive effect to income tax re-assessments, equity in net earnings of affiliate and tax allocation adjustments.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE SUMMARY OF OPERATIONS

This discussion and analysis of the summary of operations should be read in conjunction with the "Five Year Summary of Operations" and "Revenue by Lines of Business" included in this report.

1975 Compared to 1974

1. Sales increased 24% in 1975. Gasoline and other petroleum products, propane and natural gas increases were due primarily to effects of higher selling prices. Forest products division experienced an increased demand for plywood in the latter part of the year as well as some increase in selling prices. Steel products division increase reflects sales for a full year of operations combined with an increase in demand for fabricated goods.
2. Cost of sales increased 28% in 1975. Lower margins (sales less cost of sales) were experienced throughout most of the Company, especially in areas of operations where regulation has not allowed immediate pass through of product cost increases. Improvements in margins were primarily limited to the steel products division where demand has remained strong.
3. Equity in net earnings of affiliate (Canadian Homestead Oils Limited) has shown a strong improvement largely due to increased earnings and to a successful exploration program during 1975 which has added appreciably to Homestead's oil and gas reserves.

1974 Compared to 1973

1. Sales increased dramatically in 1974 due in part to the inclusion of acquisitions of Gold Rey Forest Products, Inc., Thompson Pipe and Steel Company, and Rogue Valley Plywood, Inc. Selling prices of the Company's products experienced some significant increases, however, cost of products in turn were also increased significantly.
2. Depletion on limited term oil and gas leases decreased in 1974 principally as a result of no new leases being acquired during the year and a generally lower level of leases outstanding.
3. Net earnings increase reflects a general improvement in all operations of the Company as well as the contributions of recent acquisitions excepting those subsidiaries engaged in the forest products industry.
4. In 1974 the Company adopted in certain United States subsidiaries the last-in, first-out method of inventory pricing for certain basic petroleum products as described in Note 2 to the financial statements. The effect of this change was to reduce 1974 net earnings by $1,284,000 or $.25 per share.

1973 Compared to 1972

1. Sales increased substantially in 1973 due primarily to the acquisition of Quebec Propane Inc. effective July 1.
2. Depletion on limited term oil and gas leases increased as a result of a faster than projected payout of some leases combined with a generally higher level of leases outstanding.
3. Increased net earnings reflected greater efficiency in both the Canadian and U.S. operations. Profit margins in petroleum products were maintained while operating, selling and administrative costs were improved significantly.

1972 Compared to 1971

1. Profit margins showed some improvements as higher demand for products in the United States forced selling price increases.
2. Interest costs on long term debt increased due to higher bank lending rates.

PRINCIPAL SUBSIDIARIES

CANADIAN PROPANE GAS & OIL LTD.

K. W. Larsen,
Senior Vice President

A. D. Friesen,
Vice President and Corporate Controller

R. H. Hipfner,
Vice President Corporate Development

J. R. Schaffer,
Vice President Operations

G. H. Smith,
Vice President Supply

GOLD REY FOREST PRODUCTS, INC.

J. W. Anderson,
President

L. Van de Water,
Controller

M. L. Houghton,
Assistant Secretary

J. E. Rowbotham,
Vice President and General Manager
Rogue Valley Plywood, Inc.

GREAT NORTHERN GAS UTILITIES LTD.

R. C. Wharton,
President

E. W. Straus,
Vice President Administration
and Treasurer

J. H. Pragnell,
Assistant Treasurer

QUEBEC PROPANE INC.

J. L. Pinault,
President

A. D. Dussault,
Vice President Petroleum Division

J. P. Kanner,
Controller

THOMPSON PIPE AND STEEL COMPANY

D. B. Bruns,
Vice Chairman

R. R. Ament,
President

R. E. Gilmor,
Vice President Engineering

D. R. Severns,
Vice President Production

J. W. Ziegler,
Vice President Marketing

R. S. Fankhauser,
Controller

THUNDERBIRD PETROLEUMS, INC.

J. L. Olvey,
Senior Vice President

D. B. Bruns,
Vice President Finance

J. C. Peterson,
Vice President Wholesale Marketing

R. R. Ross,
Vice President Retail Marketing

L. W. Buechler,
Controller

AFFILIATED COMPANY

CANADIAN HOMESTEAD OILS LIMITED

B. W. Watson,
President

R. H. J. Elliott,
Vice President Exploration

A. G. Savage,
Vice President Operations

D. E. Wikant,
Vice President and Treasurer

CANADIAN HYDROCARBONS LIMITED

DIRECTORS

****E. Jacques Courtois, Q.C.**
Montreal, Quebec
Senior Partner, Weldon, Courtois, Clarkson, Parsons & Tetrault

Arthur H. Crockett
Toronto, Ontario
Deputy Chairman, Bank of Nova Scotia

Marc H. Dhavernas
Montreal, Quebec
Chairman and President, Candiac Development Corporation

Gerard Faul
Paris, France
Assistant to the Vice President, Industrial Division, Schneider, S.A.

***Paul M. Marshall**
Calgary, Alberta
President

Dr. Fritz Morschbach
Cologne, Germany
Executive Officer, Elektrische Licht-und Kraftanlagen A.G., Munich

***Theo Muller**
Montreal, Quebec
Executive Vice President, Elican Development Co. Ltd.

***Pierre Pagezy**
Paris, France
Financial Vice President
Schneider, S.A.

***Raymond A. Rich**
Chairman of the Board

George C. Solomon
Regina, Saskatchewan
President, Western Tractor Ltd.

J. Grant Spratt
Calgary, Alberta
Petroleum Consultant

Michael J. Walton
Vancouver, British Columbia
Executive

David R. Williams, Jr.
Tulsa, Oklahoma
Chairman of the Board, The Resource Sciences Corporation

*Members of Executive Committee
**Chairman, Executive Committee

OFFICERS

Raymond A. Rich
Chairman of the Board

Paul M. Marshall
President

Anthony C. Rooney
Vice President Finance

Harold R. Allsopp
Vice President and Treasurer

John E. Carstairs
Secretary and Counsel

John L. Farrell, Jr.
Assistant Secretary

Robert T. Young
Assistant Treasurer

CORPORATE INFORMATION

Head Office
700 Three Calgary Place,
355 - Fourth Avenue S.W.,
Calgary, Alberta T2P 0J1

Transfer Agent and Registrar
Montreal Trust Company, Calgary, Toronto and Montreal

United States Transfer Agent
Morgan Guaranty Trust Company of New York, New York

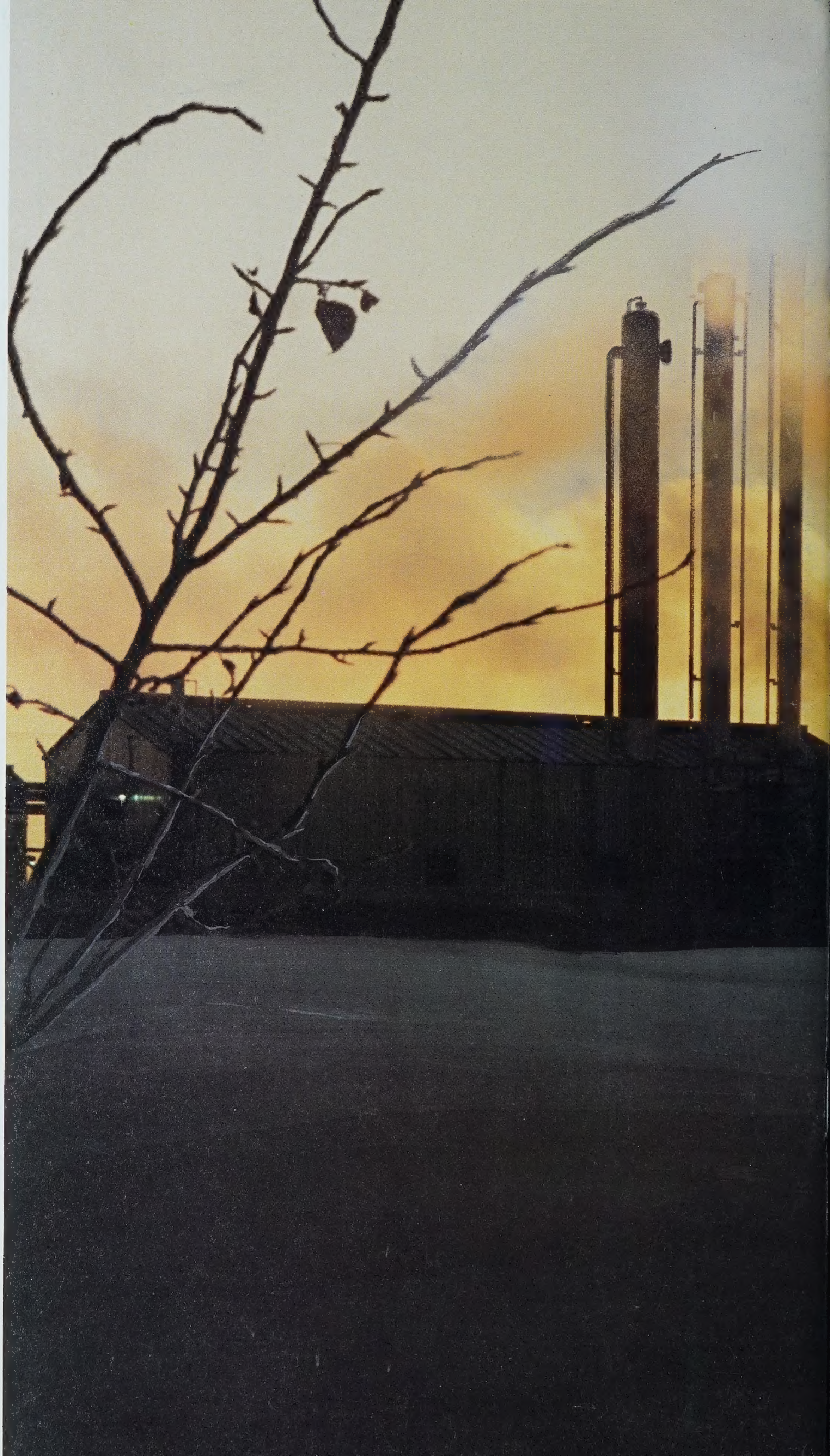
United States Registrar
Manufacturers Hanover Trust Company, New York

Stock Exchange Listings
Canada
Toronto Stock Exchange
Montreal Stock Exchange

United States
American Stock Exchange

Auditors
Clarkson, Gordon & Co., Calgary

Annual Meeting
The Annual Meeting of the Company will be held at the Calgary Inn, Calgary, Alberta at 2:00 p.m., May 12, 1976.



ALCRAFT · CALGARY
LITHOGRAPHED IN CANADA